MAGNA WATER COMPANY,
AN IMPROVEMENT DISTRICT

FINANCIAL STATEMENTS
with
INDEPENDENT AUDITORS' REPORTS

FOR THE YEAR ENDED DECEMBER 31, 2006

TABLE OF CONTENTS

PINNOCK, ROBBINS, POSEY & RICHINS
Certified Public Accountants • A Professional Corporation

Ronald D. Robbins, CPA
David T. Posey, CPA
Roger O. Richins, CPA
James R. Beaudoin, PFS, CFP, CPA
Wade K. Watkins, CPA

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Magna Water Company, an Improvement District
Magna, Utah

We have audited the accompanying basic financial statements of Magna Water Company, an Improvement District as of and for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Magna Water Company, an Improvement District as of December 31, 2006, and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 15, 2007 on our consideration of Magna Water Company, an Improvement District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion thereon.

136 East South Temple, Suite 2250, Salt Lake City, Utah 84111 801/533-0409 Fax 801/533-0414

We performed our audit to form an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the supplemental schedules listed in the Table of Contents are presented for additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards, the Schedule of Revenues and Expenses and Changes in Net Assets and the Schedule of Revenues and Expenses and Changes in Net Assets – Compared with Budget have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Impact Fees has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Pinnock, Robbins, Posey & Richins

June 15, 2007

Management's Discussion and Analysis

As management of the Magna Water Company, an Improvement District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the financial statements.

Financial Highlights

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by $36,931,302 (total net assets). Of this amount, $7,392,921 (unrestricted net assets) may be used to meet the District's ongoing obligations to citizens and creditors.

The District's total net assets increased by $2,994,863. Approximately 32% of this increase is attributable to water, sewer and secondary lines installed for new subdivisions then in turn contributed to the District. Other significant factors contributing to the increase include property taxes, interest income, and impact fees collected by new subdivisions.

At the end of the current fiscal year, unrestricted net assets were $7,392,921 or 147% of total expenditures.

The District's total debt decreased by $361,928 (2%) during the current fiscal year. The key factor in this decrease was due to the District's annual payments made during the year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. The financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues and expenses and changes in net assets presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The District maintains one type of proprietary fund, an enterprise fund. A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The district, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning the District's budget and actual amounts.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by $36,931,302 at the close of the most recent fiscal year.

By far the largest portion of the District's net assets (67%) reflects its investment in capital assets (e.g., land, buildings, pipelines, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Magna Water Company, an Improvement District
Condensed Balance Sheet

	2006	2005
Current and other assets	$ 23,875,136	$ 23,418,452
Capital assets	29,173,962	26,236,836
Total Assets	$ 53,049,098	$ 49,655,288
Long-term liabilities outstanding	$ 14,063,882	$ 14,683,236
Other liabilities	2,053,914	1,035,613
Total Liabilities	$ 16,117,796	$ 15,718,849
Net Assets:		
Invested in capital assets, net of related debt	$ 24,833,761	$ 22,279,774
Restricted	4,704,620	4,740,027
Unrestricted	7,392,921	6,916,638
Total Net Assets	$ 36,931,302	$ 33,936,439

The restricted portion of the District's net assets ($4,704,620) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets ($7,392,921) may be used to meet the District's ongoing obligations to citizens and creditors.

There was a decrease of $35,407 in restricted net assets reported by the District. The decrease resulted from the District using $1,462,129 of restricted sewer impact fees for the construction of a dewatering process at the wastewater treatment plant, and a combination of an increase in the required replacement reserve account and collecting restricted impact fees.

The District's net assets increased by $2,994,863 during the current fiscal year. A large portion of this increase represents the degree of growth in the area. The increase is comprised of interest, impact fees collected and also the lines of which contractors have conveyed to the District. The increase also results from the District's operating and non-operating revenues exceeding the expenses for the year.

Magna Water Company, an Improvement District
Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	2006	2005
Operating Revenues	$ 4,379,493	$ 3,805,731
Non-operating Revenues	2,694,179	2,084,664
Total Revenues	7,073,672	5,890,395
Depreciation and Amortization Expense	1,480,724	1,400,215
Other Operating Expense	3,189,933	3,005,498
Non-operating Expense	364,810	303,959
Total Expenses	5,035,467	4,709,672
Income before Capital Contributions	2,038,205	1,180,723
Capital Contributions	956,658	1,946,050
Change in Net Assets	2,994,863	3,126,773
Net Assets - Beginning of Year	33,936,439	30,809,666
Net Assets - Ending of Year	$ 36,931,302	$ 33,936,439

Major sources of revenue for the District consist of charges for services, property taxes, impact fees collected from new subdivisions, and new water and sewer lines installed by contractors and conveyed to the District. These sources account for 90% of the Districts revenues.

Total operating revenues were up by approximately 15% from the prior year, while total operating expenses were up by approximately 6%, leading to an increase in income before capital contributions in 2006 as compared to the previous year. The capital contributions decreased in 2006 as compared to 2005. The increase in revenue is primarily due to an increase in service fees, impact fees and development fees collected. The impact fees and development fees are collected in advance of the lines being contributed to the District, therefore, the increase or decrease in the impact fees and development fees do not always run parallel with the increase or decrease in the capital contributions. The increase in expenses is primarily due to inflation and growth in the demand of services for 2006.

Capital Asset and Debt Administration

Capital Assets. The District's investment in capital assets as of December 31, 2006 amounts to $29,173,962 (net of accumulated depreciation). This investment in capital assets includes land, structures and improvements, wells and springs, supply and transmission mains for water distribution and sewer collection, easements, water rights, construction in progress, plant and sewer systems, automobiles and equipment. The total increase in the District's investment in capital assets for the current fiscal year was approximately 11%. The District has completed Phase I of the Secondary system. The new sludge handling process at the wastewater treatment plant was completed in 2006. Design phase of the new water treatment facility was started in 2006.

Capital Assets
Net of Accumulated Depreciation

	2006	2005
Land	$ 940,195	$ 933,695
Buildings and improvements	218,026	234,071
Water system	12,432,140	12,695,160
Secondary water system	3,208,026	155,682
Sewer treatment plant	6,576,960	5,502,853
Sewage collection lines	3,878,039	3,862,825
Machinery and equipment	211,028	288,175
Construction in progress	1,709,548	2,564,375
TOTAL	$ 29,173,962	$ 26,236,836

Additional information on the District's capital assets can be found in Note 3 to the financial statements.

Long-term debt. At the end of the current fiscal year, the District had total long-term debt outstanding of $14,682,860. Of this amount, $2,791,000 is outstanding as revenue bond debt, $1,041,860 relates to amounts outstanding on a water resource loan, and $10,850,000 is outstanding as general obligation bond debt.

Outstanding Debt

	2006	2005
General obligation bonds	$ 10,850,000	$ 10,850,000
Revenue bonds	2,791,000	3,110,000
Water Resource Loan	1,041,860	1,084,788
	$ 14,682,860	$ 15,044,788

Additional information of the District's long-term debt can be found in note 4 to the financial statements.

Reserve Funds

The District held $1,992,832 in reserves at the end of the current fiscal year. The reserve funds are mandatory by the revenue bonds.

Reserve and Fee Structure

In 2005 the District performed a rate study to determine the revenue requirements of the system based on the water and wastewater operations and capital facility needs. The District implemented a three tier rate structure for the secondary system in 2005. The water and sewer user fee increased in 2006 and has a planned increase each year until 2010.

Planned Future Capital Improvements

The District is in the design and construction phase of a water treatment facility to comply with the federal mandate to treat drinking water for excess levels of arsenic. The District has to comply with the new MCL level of arsenic by January 2009. The new treatment plant is estimated to cost $25 million to construct. The District is actively engaged in finding funding to assist in the cost. The District has currently bonded $10,850,000 for the project. There is also a 20-year master plan that the District follows to upgrade the water and sewer system to provide capacity needed for growth in the area.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Magna Water Company, an Improvement District, Attention: District Manager, PO Box 303, Magna, Utah 84044.

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable	$ 983,276
Accrued liabilities	87,874
Compensated absences	76,757
Retainage payable	91,127
Accrued interest payable	195,902
General obligation bonds payable – current	240,000
Revenue bonds payable – current	336,000
Water Resource loan payable – current	42,978
TOTAL CURRENT LIABILITIES	2,053,914
NONCURRENT LIABILITIES:	
General obligation bonds payable	10,610,000
Revenue bonds payable	2,455,000
Water Resource loan payable	998,882
TOTAL NONCURRENT LIABILITIES	14,063,882
TOTAL LIABILITIES	16,117,796
NET ASSETS:	
Invested in capital assets, net of related debt	24,833,761
Restricted for:	
Debt service	1,243,299
Capital projects	3,461,321
Unrestricted	7,392,921
TOTAL NET ASSETS	36,931,302
TOTAL LIABILITIES AND NET ASSETS	$53,049,098

MAGNA WATER COMPANY, AN IMPROVEMENT DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2006

OPERATING REVENUES:	
Water sales	$ 2,465,938
Sewer service charges	1,645,588
Connection fees and other income	267,967
TOTAL OPERATING REVENUES	4,379,493
OPERATING EXPENSES:	
Salaries and benefits	1,617,269
Contractual services	429,274
Materials and supplies	587,878
Utilities	291,521
Depreciation and amortization	1,480,724
Lease expense	27,318
Other operating expenses	236,673
TOTAL OPERATING EXPENSES	4,670,657
OPERATING (LOSS)	(291,164)
NON-OPERATING REVENUES (EXPENSES):	
Property tax revenue	1,422,629
Non-resident fee in lieu of property taxes	47,864
Impact fees	439,384
Gain on sale of assets	2,430
Intergovernmental revenue	12,540
Interest income	769,332
Interest expense	(364,810)
TOTAL NON-OPERATING REVENUES (EXPENSES)	2,329,369
INCOME BEFORE CAPITAL CONTRIBUTIONS	2,038,205
DEVELOPER CONTRIBUTED WATER AND SEWER LINES	956,658
CHANGE IN NET ASSETS	2,994,863
NET ASSETS AT BEGINNING OF YEAR	33,936,439
NET ASSETS AT END OF YEAR	$ 36,931,302

See accompanying notes to the financial statements.

MAGNA WATER COMPANY, AN IMPROVEMENT DISTRICT

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers and users	$ 4,376,127
Payments to suppliers	(799,002)
Payments to employees	(1,616,406)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,960,719
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Property tax collected for maintenance and operations	854,181
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	854,181
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Receipts from impact fees	439,384
Property tax collected for debt service	609,068
Proceeds from capital debt	385,000
Purchases and construction of capital assets	(3,440,769)
Principal paid on capital debt	(361,928)
Interest paid on capital debt	(429,976)
Receipts from intergovernmental revenue	12,540
Proceeds from sale of capital assets	2,430
NET CASH (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	(2,784,251)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of investments	(13,976)
Interest received	769,332
NET CASH PROVIDED BY INVESTING ACTIVITIES	755,356
NET INCREASE IN CASH AND CASH EQUIVALENTS	786,005
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	16,977,413
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 17,763,418
CASH APPEARS ON THE BALANCE SHEET AS FOLLOWS:	
Cash and cash equivalents - unrestricted	$ 7,576,819
Cash and cash equivalents - restricted	10,186,599
	$ 17,763,418

See accompanying notes to the financial statements.

MAGNA WATER COMPANY, AN IMPROVEMENT DISTRICT

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2006

RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating (loss)	$ (291,164)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:	
Depreciation and amortization	1,480,724
Changes in operating assets and liabilities:	
(Increase) decrease in:	
Receivables	(3,366)
Prepaids	2,914
Inventories	7,984
Water rights and shares	(62,414)
Increase (decrease) in:	
Accounts payable	700,378
Accrued liabilities	55,799
Compensated absences	863
Retainage payable	69,001
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 1,960,719

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:

The District received water and sewer lines from subdividers in the amount of $956,658 in 2006, which represents the fair value of lines deeded to the District. These additions are accounted for as capital contributions in the statement of revenues, expenses, and changes in net assets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Magna Water Company, an Improvement District, is a special district governed by an elected three member board. Generally accepted accounting principles require that these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. The District was created July 7, 1949 by a resolution of the Board of County Commissioners of Salt Lake County. Salt Lake County has no oversight responsibility over the District and the District is not reported as a component unit of Salt Lake County. The District has no blended or discretely presented component units.

B. Measurement Focus and Basis of Accounting

The District is an enterprise fund, which is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict the guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their enterprise funds, subject to the same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for water and sewer services. Operating expenses include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Budgetary Procedures and Budgetary Accounting

Budgetary procedures for the Agency have been established by the Uniform Fiscal Procedures Act adopted by the State of Utah, which requires the legal adoption of a budget for all funds. Furthermore, in accordance with state law, all appropriations lapse at the end of the budget year; accordingly, no encumbrances are recorded. The basis of accounting applied to the budget is that same basis as the financial statements.

A formal budget has been adopted and used as a control device during the year ended December 31, 2006.

No budget is required to be presented in these financial statements. State law allows the District to amend the proprietary fund budget without public hearing or public notice.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Budgetary Procedures and Budgetary Accounting (continued)

The District follows the following procedures in its budgetary process:

1. During October or November of each year the District adopts a tentative annual budget for the upcoming calendar year.

2. The tentative budget is a public record and is available for public inspection.

3. At least ten days prior to the second Tuesday in November of each year, the District publishes a notice of public hearing in an issue of a newspaper of general circulation for the purpose of adopting the budget.

4. On the second Tuesday in November, the budget is formally adopted after consideration of public comment.

D. Cash and Cash Equivalents

The District considers all highly liquid investments with a maturity of three months or less when purchased to be "cash equivalents".

E. Deferred Bond Issuance Costs

Costs incurred related to the issuance of bonds are deferred and amortized over the term of the related bonds using the straight line method.

F. Inventories

The District maintains inventories of pipe, repair parts, hydrants, and water meters. Inventories are stated at lower of cost or market using the first in/first out (FIFO) method.

G. Capital Assets

Capital assets include land, building and improvements, water and sewer systems, and machinery and equipment. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 and an estimated useful live in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. No interest was capitalized during the current fiscal year.

Property, plant, and equipment of the District is depreciated using the straight line method over the following estimated useful lives:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Capital Assets (continued)

Water utility plant	20 to 50 years
Sewer utility plant	30 to 50 years
Buildings and structures	30 to 40 years
Equipment	3 to 15 years
Furniture and fixtures	5 to 10 years

H. Employee Benefits and Compensated Absences

The District provides pension, medical, dental, vision, and life insurance to its employees, all of which are negotiated by contract with the Teamsters Union. Employees are also provided paid holidays and vacation pay, which does not accumulate from year to year, but a maximum of 80 hours can be cashed out at the end of each year. Sick leave accumulates at a rate of one-half day per month and can be carried over from year to year without limitation.

I. Property Tax Revenues

Property taxes are levied on January 1st based on the assessed values of property listed on the previous May 31st. Assessed values are an approximation of market value. Property taxes become delinquent after November 30. The District's tax rate for 2006 was .001671, which is comprised of .000800 for operations and maintenance and .000871 for debt service. The statutory maximum set by the state for operations and maintenance is .000800. There is no statutory maximum for the reduction of general obligation bonds.

J. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the District to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

2. DEPOSITS AND INVESTMENTS

Deposits and investments for local government are governed by the Utah Money Management Act (*Utah Code Annotated*, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council ("the Council"). Following are discussions of the District's exposure to various risks related to its cash management activities.

A. Deposits

	Bank Balances	Book Balances
Cash on hand	$ –	$ 1,300
Cash on deposit	652,475	194,077
TOTAL	$ 652,475	$ 195,377

2. DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (continued)

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be recovered. The District's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the District to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of December 31, 2006, $551,475 of the district's bank balance of $652,475 was uninsured and uncollateralized.

B. Investments

Credit Risk: Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The District's policy for limiting the credit risk of investments is to comply with the Money Management Act. The Act requires investments transactions to be conducted only through qualified depositories, certified dealers, or directly with issuers of investment securities. Permitted investments include deposits of qualified depositories; repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the U.S. Treasury and U.S. government sponsored enterprises; bond and notes of political subdivisions of the State of Utah; fixed rate corporate obligations and variable rate securities rated "A" or higher by two nationally recognized statistical rating organizations as defined in the Act.

The District is authorized to invest in the Utah Public Treasurer's Investment fund (PTIF), as external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balance. The District's investments in money market funds, Grand Cayman, and the PTIF are unrated.

As of December 31, 2006, the District had the following investments and maturities:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
Money Market Funds	$ 2,146,595	$ 2,146,595	$ –	$ –	$ –
Grand Cayman	3,263,140	3,263,140	–	–	–
Certificates of deposit	400,945	–	400,945	–	–
State of Utah Public Treasurer's Investment Fund	12,158,306	12,158,306	–	–	–
TOTAL	$ 17,968,986	$ 17,568,041	$ 400,945	$ –	$ –

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The District manages its exposure to declines in fair value by investing mainly in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the

2. DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (continued)

period of availability of the funds to be invested. The Act further limited the remaining term to maturity of commercial paper to 270 days or less and fixed rate negotiable deposits and corporate obligations to 365 days or less. Maturities of the District's investments are noted above.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's policy to reduce this risk is to adhere to the rules of the Money Management Council. The Council's Rule 17 limits investments in a single issuer of commercial paper and corporate obligations to between five and ten percent depending upon the total dollar amount held in the District's portfolio at the time of purchase.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a formal policy for custodial credit risk.

3. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
CAPITAL ASSETS NOT BEING DEPRECIATED:				
Land	$ 933,695	$ 6,500	$ –	$ 940,195
Construction in progress	2,564,375	3,338,561	(4,193,388)	1,709,548
Total Capital assets, not being depreciated	3,498,070	3,345,061	(4,193,388)	2,649,743
CAPITAL ASSETS, BEING DEPRECIATED:				
Buildings and improvements	481,984	–	–	481,984
Water system	21,382,852	420,373	(1,290)	21,801,935
Secondary water system	158,638	3,125,012	–	3,283,650
Sewer treatment plant	10,511,225	1,462,129	–	11,973,354
Sewage collection lines	7,195,637	210,900	–	7,406,537
Machinery and equipment	1,810,030	27,339	–	1,837,369
Total capital assets being depreciated	41,540,366	5,245,753	(1,290)	46,784,829
LESS ACCUMULATED DEPRECIATION FOR:				
Buildings and improvements	(247,913)	(16,045)	–	(263,958)
Water system	(8,687,692)	(683,393)	1,290	(9,369,795)
Secondary water system	(2,956)	(72,668)	–	(75,624)
Sewer treatment plant	(5,008,372)	(388,022)	–	(5,396,394)
Sewage collection lines	(3,332,812)	(195,686)	–	(3,528,498)
Machinery and equipment	(1,521,855)	(104,486)	–	(1,626,341)
Total accumulated depreciation	(18,801,600)	(1,460,300)	1,290	(20,260,610)
Total capital assets, being depreciated, net	22,738,766	3,785,453	–	26,524,219
CAPITAL ASSETS, NET	$26,236,836	$ 7,130,514	$(4,193,388)	$29,173,962

4. LONG-TERM DEBT

General Obligation Bonds

The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. The original amount of general obligation bonds issued in prior years was $10,850,000. No general obligation bonds were issued in the current year.

General obligation bonds are direct obligations and pledge the full faith and credit of the District. General obligation bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
Water treatment plant	2.27%	$ 6,000,000
Water treatment plant	4.43 – 5.12%	4,850,000
		$10,850,000

Of the $6,000,000 General Obligation Bonds, Series 2005A outstanding, only $1,385,000 has been drawn down, resulting in bond proceeds receivable of $4,615,000. Subsequent to December 31, 2006, the District drew down an additional $150,000.

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31,	Principal	Interest	Total Debt Service
2007	$ 240,000	$ 369,068	$ 609,068
2008	846,000	357,086	1,203,086
2009	876,000	324,403	1,200,403
2010	912,000	289,667	1,201,667
2011	953,000	252,476	1,205,476
2012–2016	3,687,000	681,587	4,368,587
2017-2021	1,575,000	308,720	1,883,720
2022-2026	1,761,000	121,696	1,882,696
TOTAL	$ 10,850,000	$ 2,704,703	$ 13,554,703

Revenue Bonds

The District also issues bonds where the District pledges income derived from the acquired or constructed assets to pay debt service. The original amount of revenue bonds issued in prior years was $4,870,000. No revenue bonds were issued during the current year. Revenue bonds outstanding at year end are as follows:

Purpose	Interest Rates	Amount
Water facilities	2.93%	$ 667,000
Water facilities	3.00%	877,000
Water facilities	5.15 – 5.60%	125,000
Sewer facilities	3.50%	1,122,000
		$ 2,791,000

4. LONG-TERM DEBT (CONTINUED)

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending December 31,	Principal	Interest	Total Debt Service
2007	$ 336,000	$ 88,623	$ 424,623
2008	293,000	78,206	371,206
2009	308,000	68,810	376,810
2010	323,000	58,940	381,940
2011	339,000	48,601	387,601
2012-2016	1,064,000	91,475	1,155,475
2017-2021	128,000	5,655	133,655
TOTAL	$ 2,791,000	$ 440,310	$ 3,231,310

Water Resource Loan

The District has entered into an agreement with the State of Utah Division of Water Resources (State) for the construction of a secondary water system. Under this agreement, the State has agreed to advance to the District, at an annual interest rate of 1.00%, up to $1,175,000 to fund construction on the project. As of December 31, 2006, total amounts advanced by the State were $1,175,000, and amounts outstanding were $1,041,860.

Annual debt service requirements to maturity for the Water Resource Loan are as follows:

Year Ending December 31,	Principal	Interest	Total Debt Service
2007	$ 42,978	$ 10,422	$ 53,400
2008	43,407	9,993	53,400
2009	43,841	9,559	53,400
2010	44,280	9,120	53,400
2011	44,723	8,677	53,400
2012-2016	230,412	36,588	267,000
2017-2021	242,165	24,835	267,000
2022-2026	254,518	12,482	267,000
2027-2031	95,536	1,394	96,930
TOTAL	$ 1,041,860	$ 123,070	$ 1,164,930

Changes in Long-Term Debt

Long-term debt activity for the year ended December 31, 2006 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
General obligation bonds	$10,850,000	$ -	$ -	$10,850,000	$ 240,000
Revenue bonds	3,110,000	-	(319,000)	2,791,000	336,000
Total bonds payable	13,960,000	-	(319,000)	13,641,000	576,000
Water resource loan	1,084,788	-	(42,928)	1,041,860	42,978
TOTAL LONG-TERM DEBT	$15,044,788	$ -	$ (361,928)	$14,682,860	$ 618,978

5. RESERVE REQUIREMENTS OF THE 1994 SEWER REVENUE BOND RESOLUTIONS

The District is required to establish three reserve accounts to provide for proper servicing of the 1994 Revenue Bond and repairs and replacement of the treatment facility as considered necessary. Following is a description of these reserve accounts.

Bond and Hardship Grant Assessment Account

This account is to assure the "prompt payment of the Series 1994 Bonds and Hardship Grant Assessment as it becomes due". The amount set aside and allocated each month should be 1/12 of the principal and interest due the succeeding year. As of December 31, 2006, required reserve fund balances were fully funded.

Reserve Account

The District is also required to make monthly contributions to a Reserve Account to be used to pay the principal falling due on the 1994 Bonds at any time when there are not sufficient funds in the Bond and Hardship Assessment Account to pay the same. Required monthly contributions to this Reserve Account are $2,275 until the account balance reaches $163,785. As of December 31, 2006, required reserve fund balances were fully funded.

Emergency Reserve Account

In like manner, the District is also required to make a monthly contribution to an Emergency Repair and Replacement Account. The monthly contribution is $1,137 plus such additional amounts as may be required to meet any monthly installment to said account which has not been previously paid. These contributions are to continue until the account has accumulated $81,893. As of December 31, 2006, required reserve fund balances were fully funded.

Required reserve fund balances as of December 31, 2006 are as follows:

	Amount Required	Amount on Deposit
Bond and Hardship grant assessment account:		
Amounts allocated to principal	$ 124,000	$ 124,000
Amounts allocated to interest	39,270	39,270
TOTAL	$ 163,270	$ 163,270
Reserve account	$ 163,785	$ 163,785
Emergency reserve account	81,893	81,893
TOTAL RESERVE REQUIREMENTS	$ 245,678	$ 245,678

The District maintains control of these accounts. However, withdrawals from these accounts are not allowed except for purposes stated in the 1994 Bond and Hardship Grant agreement.

6. RESERVE REQUIREMENTS OF THE 1997 WATER REVENUE BOND RESOLUTIONS

The District is required to establish reserve and replacement accounts to provide for proper service of the 1997 Revenue Bonds and replacement of the treatment facility as considered necessary. Following is a description of these reserve accounts.

Debt Service Reserve Account

The District is required to make monthly contributions to Debt Service Reserve Accounts, for each of the 1997 Water Revenue Bonds, to be used to pay principal falling due on the 1997 Bonds at any time when there are not sufficient funds to pay the same. Annual contributions to these Reserve Accounts are required until the account balance reaches $67,218, $100,000 and $100,000 for the 1997 A, B and C Bonds respectively. As of December 31, 2006, required reserve fund balances were fully funded.

Replacement Account

In like manner, the District is also required to make an annual contribution to a Replacement Account. The annual contribution is 5% of the annual water operating budget, including debt service and depreciation, and must continue until the 1997 A Bond is redeemed.

Debt Service Accounts

The District is also required to set aside funds sufficient to cover debt service principal and interest payments for the succeeding year. As of December 31, 2006, required reserve fund balances were fully funded.

Required reserve fund balances as of December 31, 2006 are as follows:

	Amount Required	Amount on Deposit
Reserve accounts	$ 267,218	$ 267,218
Replacement account	1,178,693	1,014,777
Debt service accounts	261,353	301,889
TOTAL RESERVE REQUIREMENTS	$ 1,707,264	$ 1,583,884

7. EMPLOYEES PENSION PLAN

All full-time District employees are members of the Western Conference of Teamsters Pension Trust fund, a multiple employer union plan, under a current collective bargaining agreement covering the period June 1, 2006 through May 31, 2009. The District makes pension contributions to the Pension Trust fund, a defined benefit pension plan, on behalf of all employees at the rate of $3.49 per hour.

District contributions to the Trust Fund were $162,030, $142,710 and $153,816 for 2006, 2005 and 2004, respectively.

8. POST-RETIREMENT HEALTHCARE BENEFITS

In accordance with the Union contract, the District contributes at the rate of $111.66 per active employee to the Utah-Idaho Teamsters Security Fund, which in turn provides post-retirement healthcare benefits to all eligible retired employees. Contributions to the fund amounted to $27,580 for 2006.

9. COMMITMENTS

The District has entered into an agreement with the Jordan Valley Water Conservancy District to purchase a minimum of 800 acre feet of water annually. During the year ended December 31, 2006 the District purchased 886 acre feet, at a cost of $168,626.

During the year, the District entered into contracts for the construction of a water treatment facility. As of December 31, 2006, there was approximately $258,453 outstanding on the contracts.

10. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omission; and natural disasters for which the District insures with the Local Government Trust Risk Pool.

11. CONTINGENCIES

Contamination of the groundwater aquifer by perchlorate, a potentially hazardous substance leaked into the groundwater by private industry and the federal government, is being studied and closely monitored by the District and the private industrial firm currently involved. The private firm has been paying a portion of the District's costs of these efforts. The District and the firm entered into an agreement in December 2005 concerning the removal of perchlorate from water produced by three of the District's wells. Under the agreement, the firm will pay for a substantial portion of a new treatment facility proposed by the District and for a portion of the operation and maintenance of that facility. The District is issuing bonds to finance this treatment facility. The agreement has a provision for a partial refund to the firm if future perchlorate standards merit such a refund. There is also a limited waiver of liability for the firm, subject to the terms and conditions of the agreement.

During the year ended December 31, 2005, the District issued general obligation bonds totaling $10,850,000 to fund water treatment facilities. The District is actively engaged in finding additional funding to comply with the federal mandate to treat drinking water for excess levels of arsenic. The District received an extension to comply with the new MCL level of arsenic by January 2009.

The District anticipates that costs associated with a new water treatment plan which will facilitate the removal of perchlorate and lower arsenic levels to the required standards will approximate $25 million.

12. SUBSEQUENT EVENTS

Subsequent to December 31, 2006, the District entered into new contracts in the amount of $5,219,930 for the construction of a water treatment facility.

Also subsequent to December 31, 2006, the District entered into a contract in the amount of $17,733,927 for the construction of a new water treatment plant.

SUPPLEMENTAL SCHEDULES

MAGNA WATER COMPANY, AN IMPROVEMENT DISTRICT

SCHEDULE OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2006

OPERATING REVENUES:	
Charges for services:	
Water sales	$ 2,465,938
Sewer service charges	1,645,588
Connection fees and other income	267,967
	4,379,493
OPERATING EXPENSES:	
Salaries and benefits:	
Salaries and wages – plant	782,667
Salaries and wages – office	265,674
Trustees' salaries	7,500
Payroll taxes and union fringe benefits	561,428
	1,617,269
Contractual services:	
Legal	119,946
Lobbyist fees	60,000
Accounting	13,230
Engineering	141,592
Human resources	18,979
Data processing services	14,346
Janitorial	6,120
Lab and testing	55,061
	429,274
Materials and supplies:	
Repairs, maintenance and supplies	355,904
Office supplies and postage	63,348
Water purchased	168,626
	587,878
Utilities:	
Electricity and fuel for water production and sewer processing	265,197
Office and general, electricity and fuel	6,709
Telephone and paging	19,615
	291,521
Depreciation and amortization	1,480,724
Lease expense	27,318
Other operating expenses:	
Transportation	73,997
Bad debts	2,464
Insurance	58,659
Training	31,169
Miscellaneous	70,384
	236,673

MAGNA WATER COMPANY, AN IMPROVEMENT DISTRICT

SCHEDULE OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2006

TOTAL OPERATING EXPENSES	$ 4,670,657
OPERATING (LOSS)	(291,164)
NON-OPERATING REVENUES (EXPENSES):	
Property tax revenue	1,422,629
Non-resident fee in lieu of property taxes	47,864
Impact fees	439,384
Gain on sale of assets	2,430
Intergovernmental revenue	12,540
Interest income	769,332
Interest expense	(364,810)
NET NON-OPERATING REVENUES	2,329,369
INCOME BEFORE CAPITAL CONTRIBUTIONS	2,038,205
DEVELOPER CONTRIBUTED WATER AND SEWER LINES	956,658
CHANGE IN NET ASSETS	$ 2,994,863

Schedule II

MAGNA WATER COMPANY, AN IMPROVEMENT DISTRICT

SCHEDULE OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS COMPARED WITH BUDGET

FOR THE YEAR ENDED DECEMBER 31, 2006

	Approved Budget	Actual	Difference Favorable (Unfavorable)
OPERATING REVENUES:			
Water sales	$ 2,215,000	$ 2,465,938	$ 250,938
Sewer service charges	1,500,000	1,645,588	145,588
Connection fees and other income	332,400	267,967	(64,433)
	4,047,400	4,379,493	332,093
OPERATING EXPENSES:			
Salaries and benefits	1,920,500	1,617,269	303,231
Contractual services	474,200	429,274	44,926
Materials and supplies	1,115,500	587,878	527,622
Utilities	427,200	291,521	135,679
Depreciation and amortization	1,913,995	1,480,724	433,271
Lease expense	29,000	27,318	1,682
Other operating expense	264,800	236,673	28,127
	6,145,195	4,670,657	1,474,538
NON-OPERATING REVENUE:			
Property tax revenue	1,040,549	1,422,629	382,080
Non-resident fee in lieu of property taxes	47,000	47,864	864
Impact fees	440,000	439,384	(616)
Gain on disposal of assets	–	2,430	2,430
Intergovernmental revenue	–	12,540	12,540
Interest income	400,000	769,332	369,332
	1,927,549	2,694,179	766,630
NON-OPERATING EXPENSE:			
Interest expense	119,100	364,810	(245,710)
	119,100	364,810	(245,710)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(289,346)	2,038,205	2,327,551
DEVELOPER CONTRIBUTED WATER AND SEWER LINES	820,000	956,658	136,658
CHANGE IN NET ASSETS	$ 530,654	$ 2,994,863	$ 2,464,209

MAGNA WATER COMPANY, AN IMPROVEMENT DISTRICT

SCHEDULE OF IMPACT FEES

FOR THE YEAR ENDED DECEMBER 31, 2006

Magna Water Company collects culinary water, secondary water, and sewer impact fees. The following is a summary of the impact fees outstanding by year of collection:

Year Collected	Culinary Water	Secondary Water	Sewer
2001	$ 170,126	$ –	$ –
2002	532,438	–	–
2003	321,119	–	–
2004	416,224	62,712	–
2005	241,606	21,514	–
2006	282,837	98,489	–
TOTAL	$ 1,964,350	$ 182,715	$ –

The following capital projects are planned to use the impact fees shown above:

Planned Capital Project	Projected Cost	Anticipated Start Date	Impact Fee Type
Water Treatment Plant	$ 21,000,000	Under Construction	Culinary Water
Secondary Water System Phase I	$ 2,109,950	2007	Secondary Water
Secondary Clarifiers	$ 990,000	2010	Sewer

PINNOCK, ROBBINS, POSEY & RICHINS
Certified Public Accountants • A Professional Corporation

Ronald D. Robbins, CPA
David T. Posey, CPA
Roger O. Richins, CPA
James R. Beaudoin, PFS, CFP, CPA
Wade K. Watkins, CPA

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Magna Water Company, an Improvement District
Magna, Utah

We have audited the financial statements of Magna Water Company, an Improvement District (the District) as of and for the year ended December 31, 2006, and have issued our report thereon dated June 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider certain deficiencies described in the accompanying management letter to be significant deficiencies in internal control over financial reporting (items 1 through 3).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

136 East South Temple, Suite 2250, Salt Lake City, Utah 84111 801/533-0409 Fax 801/533-0414

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 3 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

This report is intended for the information of the Board of Trustees, management, federal awarding agencies, and applicable regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Pinnock, Robbins, Posey & Richins

June 15, 2007

PINNOCK, ROBBINS, POSEY & RICHINS
Certified Public Accountants • A Professional Corporation

Ronald D. Robbins, CPA
David T. Posey, CPA
Roger O. Richins, CPA
James R. Beaudoin, PFS, CFP, CPA
Wade K. Watkins, CPA

INDEPENDENT AUDITORS' REPORT ON STATE LEGAL COMPLIANCE

Board of Trustees
Magna Water Company, an Improvement District
Magna, Utah

We have audited the accompanying basic financial statements of Magna Water Company, an Improvement District for the year ended December 31, 2006 and has issued our report thereon dated June 15, 2007.

Our audit included test work on the District's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

Public Debt	Truth in Taxation and Property Tax Limitations
Cash Management	Special Districts
Budgetary Compliance	Other General Issues
Purchasing Requirements	Impact Fees

The District did not receive any major or non-major State Grants during the year ended December 31, 2006.

The management of Magna Water Company, an Improvement District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, Magna Water Company, an Improvement District, complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2006.

Pinnock, Robbins, Posey & Richins

June 15, 2007

136 East South Temple, Suite 2250, Salt Lake City, Utah 84111 801/533-0409 Fax 801/533-0414

SINGLE AUDIT SECTION

PINNOCK, ROBBINS, POSEY & RICHINS
Certified Public Accountants • A Professional Corporation

Ronald D. Robbins, CPA
David T. Posey, CPA
Roger O. Richins, CPA
James R. Beaudoin, PFS, CFP, CPA
Wade K. Watkins, CPA

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees
Magna Water Company, an Improvement District
Magna, Utah

Compliance

We have audited the compliance of Magna Water Company, an Improvement District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, Magna Water Company, an Improvement District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over

136 East South Temple, Suite 2250, Salt Lake City, Utah 84111 801/533-0409 Fax 801/533-0414

compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Trustees, others within the entity, applicable regulatory agencies, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Pinnock, Robbins, Posey & Richins

June 15, 2007

MAGNA WATER COMPANY, AN IMPROVEMENT DISTRICT

SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2006

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Magna Water Company, an Improvement District.

2. Certain significant deficiencies in internal control have been identified and disclosed in the INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS.* One of these significant deficiencies was determined to be a material weakness in internal control.

3. No instances of noncompliance material to the financial statements of Magna Water Company, an Improvement District were disclosed during the audit.

4. No significant deficiencies relating to the audit of the major federal award programs is reported in the INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133.

5. The auditors' report on compliance for the major federal award programs for Magna Water Company, an Improvement District expresses an unqualified opinion on all major federal programs.

6. Audit findings relative to the major federal award programs for Magna Water Company, an Improvement District are reported in Part C. of this Schedule.

7. The programs tested as major programs include: Capitalization Grant for Drinking Water State Revolving Fund. (CFDA #66.468)

8. The threshold for distinguishing Types A and B programs was $300,000.

9. Magna Water Company, an Improvement District, did not qualify as a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

SIGNIFICANT DEFICIENCIES

Segregation of Duties

We noted during our audit a deficiency in the operation of controls with respect to cash till policies. The District has established separate cash tills for each employee receiving cash in order to maintain accountability and proper internal control over the custody of cash. Occasionally, we noted that employees received cash for tills to which they were not assigned, thus circumventing the internal controls established relating to cash receipts.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

SIGNIFICANT DEFICIENCIES (CONTINUED)

Proper Approval of disbursements

We noted during our audit a deficiency in the operation of controls ensuring that all check vouchers are properly initialed and approved.

MATERIAL WEAKNESSES

Accounting Personnel

The District does not train its accounting personnel sufficiently in financial accounting and reporting to ensure correct accounting for more complex transactions or produce financial statements which comply with accounting principles generally accepted in the United States of America (GAAP). The District relies on the financial statement audit procedures to identify certain necessary adjustments, reclassifications, and disclosures to produce GAAP financial statements.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

MAGNA WATER COMPANY, AN IMPROVEMENT DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2006

Federal Grantor Pass Through Grantor Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
Environmental Protection Agency			
Passed Through the State of Utah:			
Capitalization Grant for Drinking Water State Revolving Funds	66.468	N/A	$1,140,440
Water Infrastructure Grant	66.202	XP98889501-0	272,587
Total			$1,413,027

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards is presented using the same basis of accounting as that used in reporting the expenditures in the District's financial statements. The basis of accounting is described in footnote 1.B. of the District's financial statements.

MAGNA WATER COMPANY, AN IMPROVEMENT DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED DECEMBER 31, 2006

No prior audit findings.

PINNOCK, ROBBINS, POSEY & RICHINS
Certified Public Accountants • A Professional Corporation

Ronald D. Robbins, CPA
David T. Posey, CPA
Roger O. Richins, CPA
James R. Beaudoin, PFS, CFP, CPA
Wade K. Watkins, CPA

June 15, 2007

To the Board of Trustees
Magna Water Company, an Improvement District

In May 2006, the Auditing Standards Board issued Statement on Auditing Standards No. 112, *Communicating Internal Control Related Matters Identified in an Audit*, which is effective for audits of financial statements for periods ending on or after December 15, 2006. As part of our audit of the financial statements of Magna Water Company, an Improvement District (the District), this professional standard requires that we communicate in writing deficiencies in internal control over financial reporting (internal control) that rise to the level of "significant deficiencies" or "material weaknesses" that we identified during our audit of the financial statements.

These deficiencies must be communicated even though management may already know about them and may have subsequently taken actions to correct such deficiencies or made a conscious decision to accept these risks because of cost or other considerations. Also, the independent auditor cannot be used as an internal control to overcome internal control deficiencies. With this in mind we are communicating the following matters.

In planning and performing our audit of the financial statements of the District as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control as a basis for designing our audit procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

SIGNIFICANT DEFICIENCIES

A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

136 East South Temple, Suite 2250, Salt Lake City, Utah 84111 801/533-0409 Fax 801/533-0414

1. **Segregation of duties**

We noted during our audit a deficiency in the operation of controls with respect to cash till policies. The District has established separate cash tills for each employee receiving cash in order to maintain accountability and proper internal control over the custody of cash. Occasionally, we noted that employees received cash for tills to which they were not assigned, thus circumventing the internal controls established relating to cash receipts.

Management's Response

Management has re-enforced the policies for those who are assigned tills and no one will use tills for which they are not assigned. An emergency, burglary till will be placed in the front counter everyday and the Controller will be responsible for that till.

2. **Proper approval of disbursements**

We noted during our audit a deficiency in the operation of controls ensuring that all check vouchers are properly initialed and approved.

Management's Response

A new requisition system has been implemented that requires the vouchers to be signed and approved prior to any purchase order number being issued. This will help to eliminate those few vouchers that are otherwise inadvertently missed.

MATERIAL WEAKNESSES

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses:

3. **Accounting Personnel**

The District does not train its accounting personnel sufficiently in financial accounting and reporting to ensure correct accounting for more complex transactions or produce financial statements which comply with accounting principles generally accepted in the United States of America (GAAP). The Company relies on the financial statement audit procedures to identify certain necessary adjustments, reclassifications, and disclosures to produce GAAP financial statements.

Management's Response

District management will provide opportunities for accounting personnel in financial reporting to attend the training courses required to be trained in the new GASB reporting requirements and in accordance with the training development, and certification policy Sec. 8.6 of the District's Administrative Rules and Regulations.

* *

Magna Water Company, an Improvement District's written responses to the significant deficiencies and material weaknesses identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, members of the board of trustees of the District, and regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Pinnock, Robbins, Posey & Richins

PINNOCK, ROBBINS, POSEY & RICHINS, PC